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Required Report - public distribution

Date: 4/1/2016

GAIN Report Number: CH16024

China - Peoples Republic of

Cotton and Products Annual

Chinese Production and Imports to Drop to Lowest Level in Over a Decade

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Report Highlights:

Expecting lower farmer earnings as a result of the implementation of new cotton policies since MY14/15, cotton acreage is forecast to shrink once again by 9 percent, to its lowest level in twelve years. Correspondingly, cotton production is forecast to fall further to 4.9 million tons (MMT) in MY16/17. Despite declining production, China has not been able to ease its large cotton stocks built during three years of state cotton purchases. MY15/16 ending cotton stocks are estimated at 13.8 MMT and still account for 61 percent of the world's total. The economic slowdown and robust imports of yarn continue to temper the recovery of China's cotton use for MY16/17 estimated at 7.3 MMT, up slightly from MY15/16. Anticipating China's continued sales of cotton reserves and restrictions on additional import quotas in MY15/16, China's cotton imports are also expected to hit 1.1 MMT, the lowest level in 13 years. China's imports of U.S. cotton are also expected to fall. However, the Chinese textile industry will continue to seek higher grade foreign cotton to stay competitive in export markets. This supports a slight recovery in imports for MY16/17 forecast at 1.2 MMT.

Executive Summary:

China's MY16/17 cotton production¹ is forecast to continue falling at 4.9 million tons (MMT), down from the estimated 5.2 MMT in MY15/16 and 6.5 MMT in MY14/15. Lower earnings resulting from China's government cotton policies implemented since MY14/15 are expected to reduce the planted area further by 9 percent to 3.1MHa in MY16/17. Specifically, the government's recent cut to the MY16/17 target price for Xinjiang cotton farmers by RMB500/ton (\$78/ton) is expected to reduce cotton returns and negatively impact cotton planting intentions in this province. Similarly, in the Yangtze and Yellow River regions, the anticipated low government production support (not yet confirmed as of this report) and more profitable alternative crops will reduce MY16/17 cotton acreage in these regions. (See more in the Policy Section of this report).

Slower economic growth, strong imports of yarn, and greater use of increasingly more competitive fibers, in particular polyester, continues to impact the recovery of Chinese cotton consumption, estimated at 7.2 MMT in MY15/16 and forecast to grow slightly to 7.3 MMT in MY16/17. China's large state cotton reserves --built during the government cotton state purchases during MY11/12- MY13/14-- remain a challenge due to the low use of domestic cotton. As a result, at the beginning of MY15/16, China's cotton stocks are estimated at a record 14.8 MMT, roughly about 61 percent of global stocks. High carry-in stocks, slowdown in consumption growth, and the government's ability to control domestic supplies --through state reserve sales and by limiting additional tariff rate quotas (TRQ)--will continue to reduce cotton imports to an estimated 1.1 MMT in MY15/16. Given the expected drop in China's total cotton imports and increased competition from other cotton suppliers such as India and Australia, China's imports of U.S. cotton are expected to fall further in MY15/16. However, in order to stay competitive in export markets, the Chinese textile industry is likely to continue sourcing higher grade cotton from abroad. This supports a slight recovery in total cotton imports for MY16/17 forecast at 1.2 MMT. Correspondingly, imports of U.S. cotton could recover slightly in MY16/17 but still at a lower level than the 587,000 tons in MY14/15.

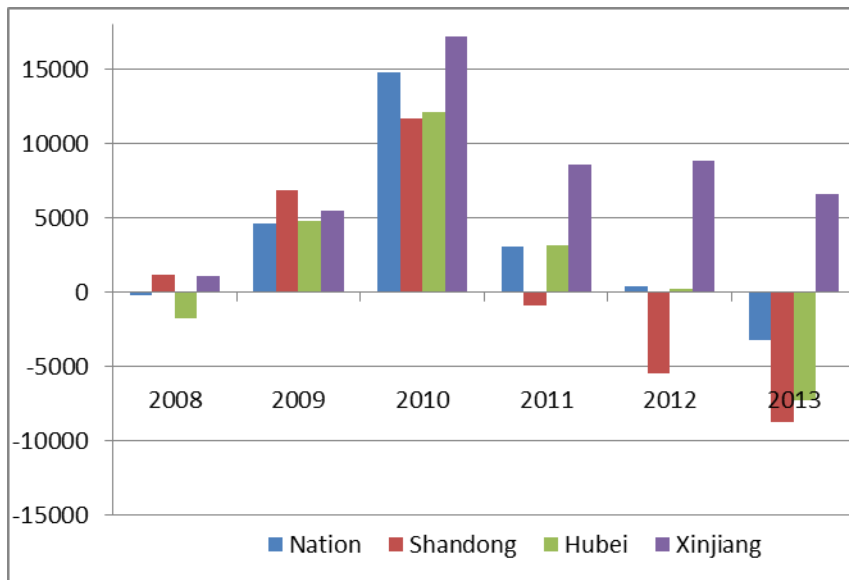
¹ Available data regarding China's cotton production, consumption and stocks differs among sources.

MY16/17 cotton production expected to fall to 4.9 MMT

MY16/17 domestic cotton production is forecast to fall to 4.9 MMT, down 6 percent from an estimated 5.2 MMT in MY15/16. The lower forecast is based on a 9 percent drop in planted area to 3.1 MHa. Introduced in MY14/15, the government's target price support policy for cotton production has effectively reduced cotton profits and production in recent years. (See [GAIN report](#) for further details.) This support policy will continue during MY16/17. Specifically, the target price for Xinjiang lowered again to RMB18,600 (\$2,906)/ton, down RMB500 (\$78) /ton from MY15/16. This will further reduce cotton returns in Xinjiang and impact cotton planting intentions in MY16/17. Additionally, details on the "fixed subsidy" of RMB2,000 (\$312.5)/ton for the other nine cotton-producing provinces remains pending as of this report. Thus, some farmers in these regions may opt to plant alternative more profitable crops.

During MY15/16, cotton profits declined from the previous year in all the cotton-producing regions. Industry sources report that MY15/16 profits were affected by a lower target price of RMB19,100 (\$3,081)/ton offered to Xinjiang compared to the RMB19,800 (\$3,220)/ton in MY14/15 and the minimum price of RMB20,400 (\$3,290)/ton received in MY13/14. Although production costs remained generally stable, a decrease in returns due to lower prices, and lower yields due to unfavorable weather conditions contributed to the reduction in cotton profits. Xinjiang's official sources report a 21 percent decrease in the MY15/16 cotton output value and 150 percent drop in profits, compared to the previous year. MY15/16 seed cotton price also fell in response to the government's lowered target price and a relatively lower quality crop. Yield was also affected by hot and dry weather in July resulting in falling bolls. Overall, Xinjiang cotton earnings for MY15/16 are estimated to be lower than the average level of earnings received over recent years.

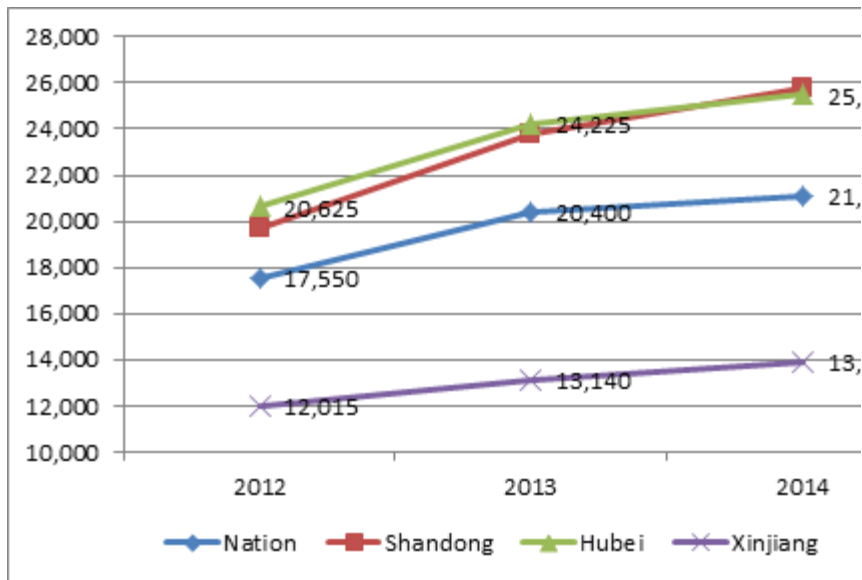
Chart 1 - Comparison of Average Net Profit* from Cotton Planting (2008-2014; RMB/Ha)



Source: National Development and Reform Commission (NDRC)
 *Excludes labor income

In provinces outside of Xinjiang, cotton earnings are also estimated to fall further from the previous year's negative level. This is despite the continuation of a fixed direct subsidy of RMB2,000 (\$325)/ton. According to China's National Development and Reform Commission (NDRC), MY14/15 cotton earnings in Shandong and Hubei provinces remained negative at RMB11,835 (\$1,410)/Ha and RMB14,235 (\$1,235)/Ha, respectively. In addition to a low government subsidy rate, the labor cost for cotton farming continues to grow. This is especially true for the Yangtze River and the Yellow River regions where most of farm work is not mechanized (see Chart 2) and productivity remains generally stagnant. Post expects some farmers in the Yangtze and Yellow River regions to plant more alternative crops in MY16/17.

Chart 2 – Average Labor Costs for Cotton Planting
 (Representative Provinces for 3 Cotton-Producing Regions)
 (RMB/Ha; 2012 to 2014)



Source: NDRC

Estimates for China's cotton area and production differ among sources. Below is a table of estimates by various sources for MY15/16 area and production. China's National Statistics Bureau (NSB) estimates MY15/16 total cotton production at 5.6 MMT based on planted area of 3.9 MHa with yields of 1,475 Kg/Ha.

NSB's data shows that MY15/16 Xinjiang's cotton production is estimated at 3.5 MMT (about 62.5 percent of total production) and acreage at 1.9 MHa (50 percent of total acreage.) This production figure is close to the officially classified volume of 3.26 MMT for Xinjiang by the China Fiber Inspection Bureau (CFIB) as of March 6, 2016. However, according to industry sources, the NSB production estimate of 2.1 MMT for all other provinces for MY15/16, appears too high. Total CFIB classified volume was 3.53 MMT, 28.7 percent lower than MY14/15. As of March 6, 2016, total MY15/16 classified volume² for other cotton-producing provinces stood only at 268,000 tons, significantly lower than the 895,000 tons in the previous year. This can be an indication of a lower level of production than the level officially reported.

It is important to note that prior to MY14/15, ginnners were selling most of their cotton to the government and were

² To facilitate the marketing and sale of cotton, major cotton producing countries classify their cotton (cotton classing) based on its specific physical attributes. Classification can be done manually or through precision instruments.

required to classify their cotton bales. In MY15/16, no longer receiving the minimum purchase price, some ginneries opted to sell directly to mills and did not need to classify their bales. This could also account for the fall in classified volume. With the current level of government support to these provinces, this preference not to classify bales before sale is likely to continue and increase the difficulty in estimating production in the coming years.

Industry leaders believe the MY15/16 Xinjiang cotton area was adjusted down according to the local government plan announced in early 2015, thus estimates the MY15/16 Xinjiang cotton production was around 3.5 to 3.6 MMT. MY15/16 cotton production for other provinces remains difficult to assess as the central government's production-based subsidy policy could result in over reporting by all levels of local governments. Currently, major industry sources estimate MY15/16 total production ranging from 5 to 5.2 MMT. Based on all these factors, Post estimates MY15/16 production is 5.2 MMT on a planted area of 3.4 MHa.

**Cotton Production Estimate/Forecast by Various Sources
(MMT; MHa)**

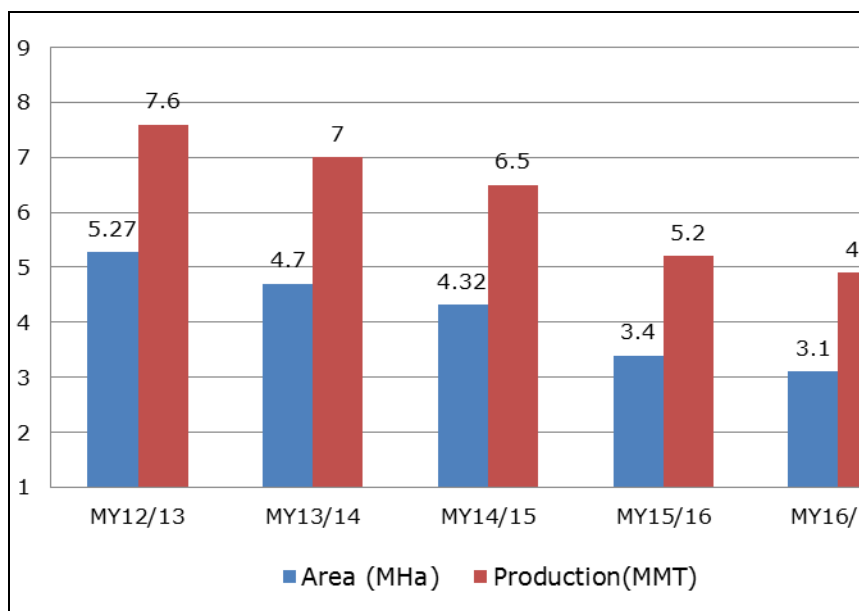
	CC A	NCMMN/ Dec	CN CE	CA AS	NS B	Po st
MY15/ 16 product ion	5.15	5.22	4.75	NA	5.6	5.2
MY15/ 16 planted area	3.21	3.41	NA	4.77	3.8	3.4
MY16/ 17 intende d planting area	2.84	3.17	NA	4.05	NA	3.1
MY16/ 17 area change	- 11.6 %	-7.2%	NA	- 8.8 %	- 10 %	- 9 %
MY16/ 17 product ion	NA	NA	4.71	NA	NA	4.9

Planted Area

Post forecasts MY16/17 total planted area will continue to fall 9 percent to 3.1MHa from the 3.4 MHa in the previous year. Specifically, the Xinjiang planted area is forecast to fall by 4 percent to 1.88 MHa, and the rest to fall by 15 percent to 1.22 MHa. According to the implementation details of the new support policy enforced in MY14/15 and MY15/16, areas not certified and designated by the government for cotton planting were not eligible to receive support payments. This will discourage cotton planting in this province in MY16/17. Xinjiang provincial agricultural official state that MY16/17 cotton planting intentions are down 135,000 Ha. This exceeds the Xinjiang government plan to reduce the cotton area by 100,000 Ha in MY16/17. As a result, grain crops such as forage corn and wheat, cash crops including tomato, peanuts and watermelon are likely to replace cotton in Xinjiang.

Similarly, the planted area for all other provinces is expected to plummet fifteen percent to 1.22 MHa in MY16/17. Currently, details on the government's MY16/17 cotton production support policy for these provinces are still pending. Reduced cotton earnings due to low cotton prices, less government price support, and an increase in production costs in MY15/16, are expected to negatively impact MY16/17 cotton planting intentions. This is particularly true for the Yangtze and Yellow River regions, where farmers have the option of growing other more profitable crops. For example, farmers will switch to “corn+wheat” or add acreage for rice, vegetables and fruits for higher profits.

Chart 3- China Cotton Planted Area and Production (MY12/13 to MY16/17)



Source: FAS/Beijing

A recent survey by the China Cotton Association (CCA) indicates MY16/17 cotton planting intention will decline by 11.6 percent to 2.84 MHa compared to last year. Specifically, the planting intentions will lower by 19 percent in the Yellow River regions with Henan down 33 percent, and by 14 percent in the Yangtze River region with Jiangsu down 22 percent. The survey also shows MY16/17 planting intentions for Xinjiang will fall by 9.1 percent and the Xinjiang Production and Construction Corp (PCC) will fall by 12 percent. NSB also forecasts a 10 percent decline in MY16/17 cotton planting intentions from the previous year.

The National Cotton Market Monitoring Network (NCMMN)'s November 2015 Survey results show a 7.2 percent drop in planting intention for MY16/17. China Academy of Agricultural Science Cotton Research Cotton Institute (CAAS) survey conducted in January forecasts MY15/16 cotton planting intentions will be down by 8.8 percent, with the Yangtze River region down 8.4 percent, the Yellow River region down 10.7 percent and the Northwest down 7.7 percent (with Northern Xinjiang down 10 percent). The drop in cotton planting intentions is also supported by local industry surveys. In Juye, Shandong province, the local industry's February survey shows a 10 percent drop in planting intention for MY16/17. This trend is also seen in other regional surveys indicating a 17 to 18 percent decline in

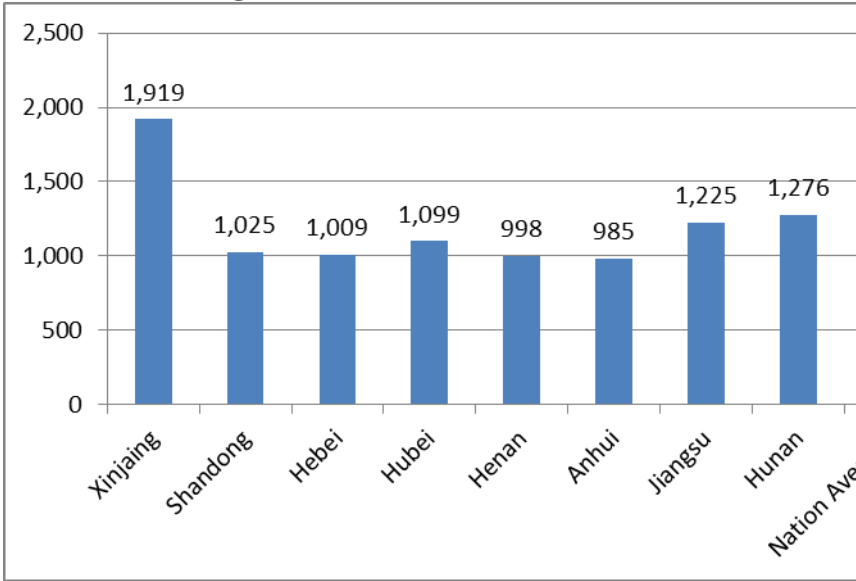
planting intentions in Dongzhi and Wuwei, Anhui province.

Yield

In the recent four years, NSB data shows China’s average cotton yield has varied significantly by individual province/autonomous region, ranging from 985Kg/Ha in Anhui to 1,919Kg/Ha in Xinjiang (see Chart 4). Overall, MY16/17 cotton yield is forecast at an average of 1,581Kg/Ha with Xinjiang yield forecast at 1,878 Kg/Ha. The MY16/17’s relative high national average yield forecast is driven by an increase in Xinjiang’s share of total cotton production.

Weather conditions and the use of new technologies, including biotech, continue to be key factors in yield gains. The use of biotech cotton varieties to reduce pest-related yield losses will continue to dominate in the provinces in the Yangtze River and the Yellow River regions. However, weather uncertainties, such as flooding or drought, in these regions frequently delay harvest, affect fiber quality, and impact yields.

**Chart 4 – NSB Five-Year Average Yield by Province
(Kg/Ha; MY11/12 to MY15/16)**



Source: NSB; Note: data for 8 major cotton-producing provinces

Conversely, in Xinjiang’s dry climate, the use of biotech cotton is less prevalent as a result of fewer pests.

Conventional varieties with specific traits, such as a dwarf plant size and early maturity, continue to raise yields. The Xinjiang Production and Construction Corp (PCC) farms, which are organized on a larger scale than other typical Chinese cotton farms, are able to incorporate particular agronomic practices to improve yields, such as high density sowing, plastic sheet covering, and drip irrigation technology.

Mechanized harvest is increasingly popular in all of Xinjiang province in particular in the PCC farms seeking to reduce the need for labor inputs. An official media reported mechanized harvest cotton acreage accounted for 70 percent of the PCC cotton area in MY15/16, while the mechanized harvest rate for Xinjiang none-PCC farms remained relatively low at 190,000 Ha in MY14/15, however, up by 115 percent over MY13/14. This trend should continue in MY15/16 although no specific number is available. There have been complaints on yield losses and lower fiber quality as a result of mechanized harvest. It will take some time for the Xinjiang cotton sector to develop comprehensive technology including appropriate cotton varieties and agronomical practices for mechanized harvesting to fully upgrade the overall productivity of its cotton farming.

Stocks

China is expected to hold 61 percent of world cotton stocks, an estimated record 14.8 MMT, at the beginning of MY15/16. Stocks are forecast to fall to 13.83 MMT at the beginning of MY16/17 mainly given the expected use of some state stocks. Government purchases of more than 16 MMT of domestic cotton at higher prices during MY11/12 through MY13/14 combined with weak cotton consumption contributed to China's cotton stocks level. Forecast low cotton imports and the likely sale of cotton stocks at market-oriented prices are expected to reduce stocks in MY16/17.

As of this report, the majority of the stocks are held by the government and are estimated to exceed 11 MMT and priced high ranging from RMB19,600 (\$3,160)/ton to RMB20,400 (\$3,290)/ton. This has created a widening gap between international and domestic prices and has left the government with excess stocks unlikely to sell without incurring large losses. Mills, on the other hand, continue to keep stocks at low levels to minimize losses resulting from possible price fluctuations.

NDRC indicated that the government intends to reduce the current high reserve to a “reasonable level” in five years. The 2016 cotton reserve auction is likely to start in mid-April (see more in the following Policy section). However, auctions will depend on the recovery of domestic cotton demand and the gap between the auction price and the global price. In addition to the price factor, cotton quality remains the main concerns for domestic spinners. Most industry insiders believe the government’s auction rules in MY16/17 will be more market-oriented in terms of price etc. in order to encourage mills to use of old stocks. This expectation follows the low purchase rate of 3.4 percent experienced during auction sales in MY14/15 as a result of the high auction price. (See policy section for more details).

It is worth noting that while the government seeks to manage its high cotton stocks through sales, it is unlikely to release a large volume of stocks in a single auction. As the price of auctioned stocks competes with global prices, there will be little incentive to put further downward pressure on global prices which would undoubtedly result from releasing a single large volume of stocks.

Cotton Trade

Cotton imports expected to fall to 1.2 MMT in MY16/17

After averaging 4.3 MMT a year during China’s government’s purchase policy during MY11/12-MY13/14, the cotton import surge ended in MY14/15 as the government abandoned this policy. Cotton imports in MY14/15 plummeted to 1.8 MMT and are estimated to fall further to 1.1 MMT in MY15/16. However, as the Chinese textile industry seeks to stay competitive in export markets, it is likely to continue purchases of higher grade cotton from foreign sources. This supports a slight recovery in total cotton imports to 1.2 MMT in MY16/17. The government’s restrictions over issuing additional import TRQ facilitate the government's ability to reduce cotton imports. Furthermore, China’s strong imports of cotton yarn also reduced domestic use of imported cotton.

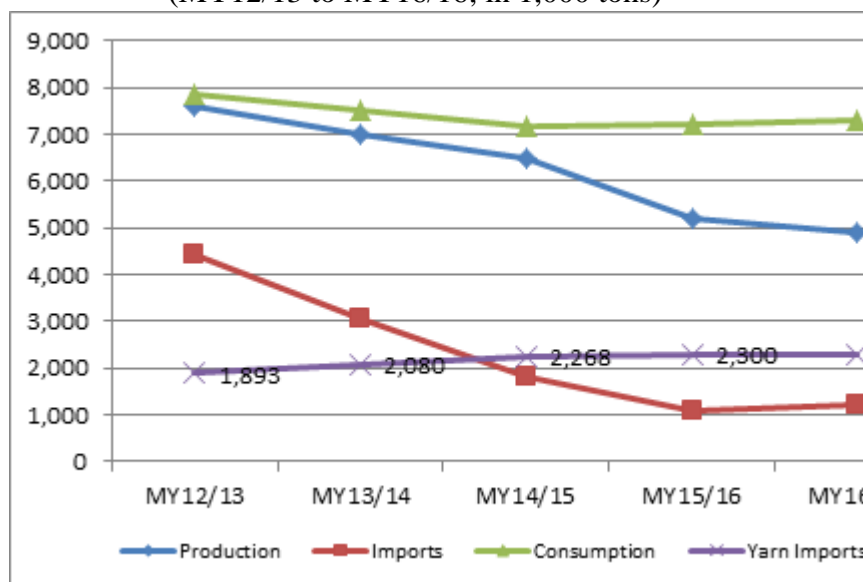
Under its World Trade Organization (WTO) commitments, China is obligated to allocate 894,000 tons of cotton TRQ imports (subject to a one percent import tariff). In previous years, China also issued additional import quotas outside of it

WTO TRQ (see attached table 12 - Tariff Rate Quota) until 2014. However, the additional TRQ allocation in 2015 remained unknown or very limited (some industry insiders estimate that about 300,000 tons of cotton imports destined for processing and re-export were used in the bonded zones in 2015). Industry insiders believe that, except average imports through bonded zones, the distribution of additional TRQs in 2016 appear improbable.

Cotton imports without a TRQ allocation are subject to a stiff 40 percent import duty which normally impedes their price competitiveness. Industry sources estimate that low global market prices combined with tight domestic supplies, triggered out-of-quota cotton imports in 2013 (roughly 500,000 tons), and in the first months of 2014. Based on the current price gap between China (or the 2016 cotton reserve auction price) and international price, imports of cotton outside the WTO TRQ (that is, paying the full 40 percent out-of-quota duty) is unlikely. According to media reports more than 100,000 tons of imported cotton destined for processing and re-export were caught to be used for other purposes in 2014. This indicates a shortage of imported cotton for blending for Chinese spinners to produce the yarn quality demanded by domestic customers.

Chart 5 - Cotton Production, Imports, Consumption and Yarn Imports

(MY12/13 to MY16/16; in 1,000 tons)



Source: FAS/Beijing Estimates/Forecast

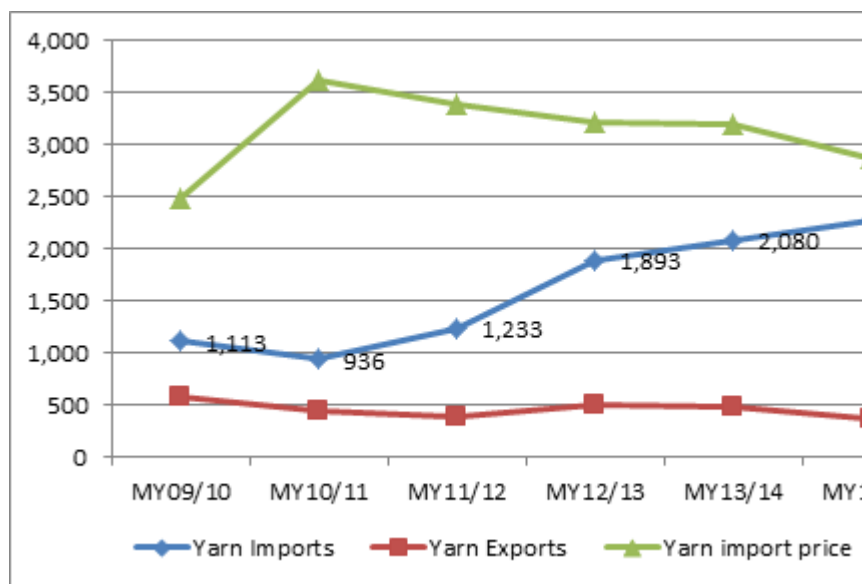
Yarn imports are another factor exerting downward pressure on cotton imports. Unlike cotton imports, yarn imports do not

face quota restrictions. China's yarn imports remained robust at more than 2 MMT since MY13/14. High net yarn imports, at 1.9 MMT in MY14/15, partly reduced cotton imports in 2015. This trend is likely to continue and temper cotton imports in 2016. Imported yarn price in MY14/15 declined 21 percent from the MY10/11 level.

Yarn imports from India, Pakistan and Vietnam are increasing in response to China's demands for various grades of yarn. Since 2012, China's spinning sector has restructured, resulting in the closing of some smaller mills. Given the disadvantages of the domestic cotton price, yarn imports will continue to be a "new normal" in the near future.

Chart 6 – China's Yarn Import/Export Volume and Import Price

(MY09/10 to MY14/15; in 1,000 tons and \$/ton)



Source: Global Trade Atlas

As China's textile industry still plays a key role in China's overall economy and trade, top Chinese industry leaders have been advocating for the government to ease restrictions on the distribution of additional cotton import TRQ to alleviate the current industry difficulties. The Chinese textile industry's competitiveness depends heavily on their access to high quality cotton at reasonable prices. These leaders have also suggested imposing a similar quota management for yarn imports if the government intends to maintain the current restrictions on additional cotton import TRQ.

U.S. cotton continues to compete with other suppliers for China's shrinking market

In MY16/17, as China's total imports are forecast to improve slightly to 1.2 MMT, Chinese imports of U.S. cotton are expected to marginally recover after falling to its lowest level in 14 years in MY15/16. In MY14/15, the United States regained its status as China's number one cotton supplier after being surpassed by Australia and India in MY13/14. However, in MY14/15 Chinese imports of U.S. cotton fell to 587,000 tons, accounting for 32.5 percent of China's reduced total import volume of 1.8 MMT. Although the quality and reliability of U.S. cotton appeals to China's end-users, India's price and transportation advantages present serious competition. India's cotton production is expected to increase as it incorporates new technology, expands the use of biotech cotton varieties, and actively promotes its product. In response to China's limited allocation of additional cotton import TRQ, Chinese imports of cotton from India plummeted in MY14/15 while yarn exports increased. Given China's unrestricted yarn imports, it is likely that in the short term China will import more U.S. cotton-based yarn from nearby emerging spinning countries such as Vietnam and Indonesia.

Chinese cotton exports are forecast to increase in MY16/17

China's cotton exports average about 10,000 tons annually, an insignificant amount compared to total cotton use. However, cotton exports in the first half of MY15/16 exceeded 23,000 tons, the highest level in nine years. Facing massive stocks, China's cotton exports are likely to grow further if the government decides to sell its reserve at a more market-oriented price in 2016 and beyond. Given that the state cotton would be purchased at a discounted price, China could be considered to be subsidizing cotton exports. Based on this assumption, Post estimates cotton exports at 54,000 tons for MY15/16 and to grow to 65,000 tons in MY16/17. That said, export growth will be depend on whether the government's new state auction price is competitive enough to attract sales. Post will continue to monitor this situation. On the other hand, yarn exports are still not competitive and lowered to 370,000 tons in MY14/15 from the 497,000 tons in MY12/13. MY14/15 net yarn imports reached 1.9 MMT, a significantly jump from the 500,000 tons in MY10/11.

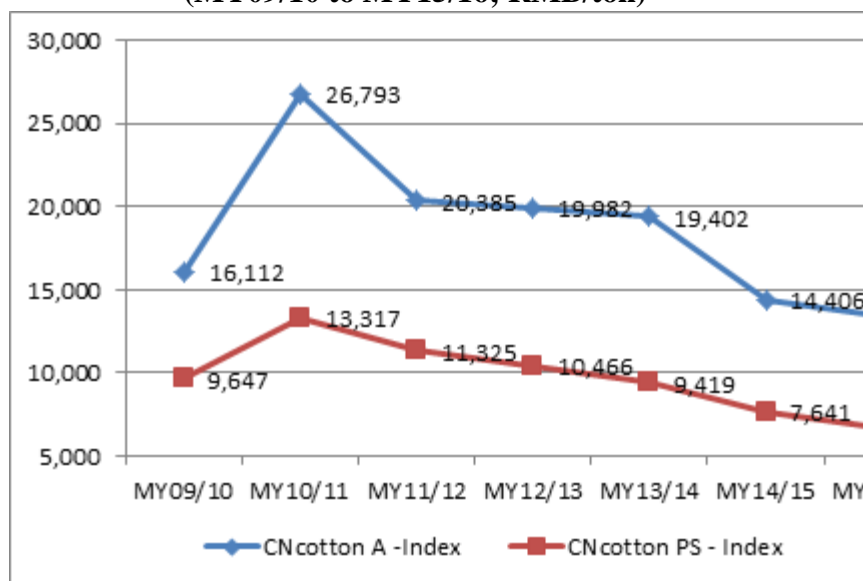
Consumption

MY16/17 cotton consumption is forecast at 7.3 MMT, up from an estimated 7.2 MMT in MY15/16. A more market-oriented domestic cotton price is expected to boost cotton use modestly. A combination of a recovering demand for textiles and apparel both at home and abroad is expected to drive China's cotton use moderately. Although demand growth in markets like Japan and EU are still expected to be weak, strengthening demand in the United States, developing countries, and domestic consumption, signals growth in purchases of apparel and textile products.

Cotton share is expected to recover slightly in yarn production

Most industry insiders believe cotton fiber will moderately regain its share in yarn production when the price gap between cotton and polyester fiber continues to shrink in 2016. Cotton prices have remained almost double that of polyester fiber prices since 2013 attributed to the rapid increase in the share of polyester fiber in yarn production. In recent years, technological advancement has enhanced the quality of man-made fiber and increased its use in the manufacturing of textiles and apparel.

Chart 7 - China Cotton Price A-Index vs Polyester Fiber-Index
(MY09/10 to MY15/16; RMB/ton)



Source: cncotto.com

According to NSB, China's total chemical fiber production grew 10 percent to 48.3 MMT in 2015 from the 43.9 MMT in 2014. Similarly, yarn production increased 4.7 percent to 35.38 MMT from the 33.79 MMT in 2014. More competitive prices for polyester fiber partly contributed to the lower use of cotton estimated at about 7.2 MMT per year in MY14/15 and MY15/16.

China's Textile Sector Production/Investment Trends

Year/Item	2011	2012	2013	2014	2015	2015/2014 Change %
Yarn Production (million tons)	28.7	29.84	32.0	33.79	35.38	+4.7
Fabrics Production (Million Meters)	814	841	883	894	893	-0.1
Chemical Fiber Production (million tons)	33.9	38	41.2	43.9	48.3	+10
Fixed Asset Investment in Textile Sector (RMB billion)	366.9	397.1	472.6	NA	192.1*	+15*

Source: China Economic and Social Development Report by NSB; *Based on China's Ministry of Industry and Information Technology

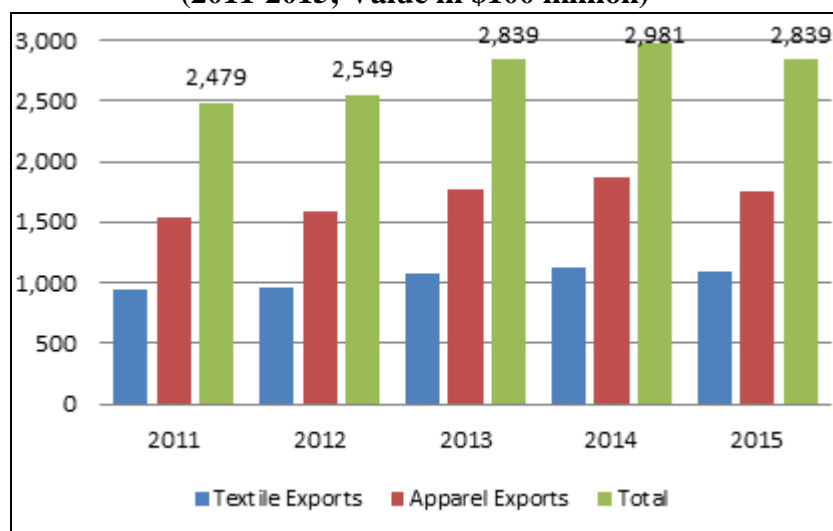
However, growth in cotton yarn imports remains uncertain for MY16/17 as the price advantage for imported yarn decreases

and encourages mills to use domestic cotton (assuming the new state auction price for cotton is competitive). Yarn imports in the first half of MY15/16 increased by 2 percent from the previous year.

Slight export recovery in textiles and apparel may support moderate growth in cotton use

China's industry sources reported that China's customs statistics show total textile and apparel exports valued at \$283.9 billion in 2015, down 4.8 percent over the previous year. Preliminary customs statistics for the first two months of 2016 indicate that total textile and apparel export were \$39.8 billion, compared to \$46.7 billion during the same period last year. China's industry leaders consider that the smaller export value is mainly impacted by a fall in contracts during the Chinese Spring Festival vacation during the first half of February. Additionally, a weak demand recovery together with increased production costs further reduced the competitiveness of Chinese products in the Japanese and European markets. Nonetheless, China's industry experts remain optimistic about the prospects for export growth in 2016 supported by lower domestic cotton price as a result of new policy changes and a forecast moderate demand recovery in overseas markets.

**Chart 8 – China's Textile and Apparel Exports
(2011-2015; Value in \$100 million)**



Source: China's Industry Source and China Customs Statistics

Domestic demand for textile and apparel growth drives use of domestic cotton

China's industry statistics show the value of total China's textile industry sales increased 5 percent in 2015, compared to the 5.7 percent increase in 2014. In 2015, the domestic sales value of apparels and other textile products increased by 9.8 percent from 2014. A more market-oriented cotton price, a comparatively strong GDP growth of 6.9 percent in 2015 and likely 6.5 to 7 growth percent in 2016, along with higher disposable income and rising living standards of Chinese consumers will continue to drive retail purchases and thereby cotton consumption. NSB data shows the 2014 Chinese per capita expenditures on clothing increased for both urban and rural residents, with urban residents at RMB 1,627 (\$265) still far outpacing rural counterpart at RMB510 (\$83) only. Rapid urbanization in China continues with newly added 22 million urban residents in 2015, up from the annual average of 21.05 million from 2008 to 2014. High urbanization is expected to continue in 2016. As rural incomes grow, the market potential for China's 603.5 million rural residents to increase textile related purchases is expected to rise. This will undoubtedly support continued demand for domestic cotton products. Additionally, China's average annual net population growth was 6.6 million from 2008 to 2014 and NSB shows net population growth was 6.8 million in 2015. Greater demand for clothing and home textile products will continue to fuel cotton use.

Upcoming challenges for China's textile sector

The textile industry in China employs over 23 million people and is considered one of China's economic pillars. According to NSB, total fixed asset investment in the textile industry maintained high growth in 2015, up 15 percent from 2014. In particular, in western China alone, fixed asset investment in the textile sector grew by 19 percent; this is consistent with the MY14/15 shift in cotton policy focus to that region.

However, total sales profit for the textile sector increased 5.4 percent in 2015, compared to the 6.1 percent growth in 2014. Despite the financial influx, the textile industry faces significant challenges, including higher cotton prices compared to other competitors, and rising production costs for key inputs such as electricity and labor. Despite the recent

government's policy changes, industry statistics show that China's spinning sector continues to pay well above the world price for domestic cotton. China Textile Industry Association data shows that China's electricity cost for industry is almost double that of Vietnam and the United States. Similarly, labor costs continue to grow, up by 8 percent in 2015 in most textile facilities. Moreover, average labor cost in coastal provinces is 2-3 times higher than in Vietnam and 5 times higher than Bangladesh. Environmental pressures (emission limits) in particularly in eastern China also discourages the expansion of facilities.

To address these ongoing hurdles, Chinese textile industry leaders have used different approaches. In addition to improving efficiency and in order to minimize losses, some mills have temporarily suspended operations holding off for better prices when sourcing domestic cotton. In search of lower raw material/labor and more favorable investment environment, other industry leaders have moved operations to China's central and western regions (Henan, Sichuan, Anhui, Jiangxi, Xinjiang and Ningxia Provinces) and to foreign countries (Vietnam and Cambodia). Industry sources indicate that Xinjiang added RMB32.8 billion (\$5.29 billion) worth of investment in the textile sector in 2015. An estimated 4 million new spindles were installed bringing the total spindles up to 10 million at the end of 2015. China's industry also reported Chinese investment in spinning facilities in the United States, Vietnam and other southeastern countries. While these developments may currently not have a significant impact in China's domestic cotton use, these may have an impact in the long-term.

Policy

The "Target Price-based Subsidy Policy" rated "successful" in MY15/16

In MY14/15, after three marketing years of implementing the minimum price state purchase policy the government switched to a target price-based subsidy program. The change in policy sought to address the aftermath of the three year stockpiling policies: The pressure of large and expensive cotton stocks, little positive impact on sustainable domestic cotton planting, and some Chinese spinners out of business. The target-price base subsidy program initiated in MY14/15 continued in

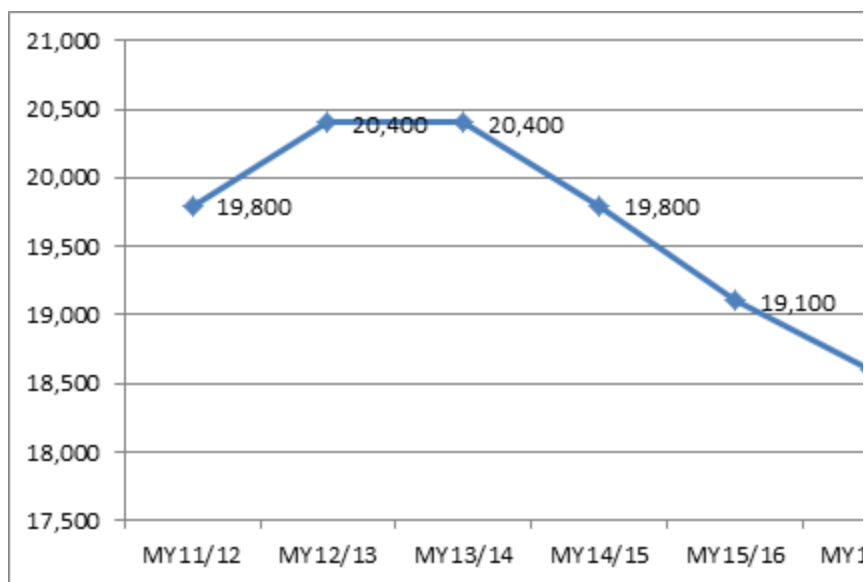
MY15/16. Xinjiang farmers received a lower target price of RMB19,100 (\$3,081)/ton, down from the RMB700 (\$113)/ton from the previous year. In addition, the fixed subsidy provided to farmers in other nine cotton-producing provinces continued at RMB2,000 (\$323)/ton. (see more background details in [GAIN CH15011](#)).

According to the information currently available, under the MY14/15 subsidy scheme the central government pays direct subsidies to cotton farmers under two distinct programs. One program is directed to cotton farmers in Xinjiang province, and another program is directed to the other nine cotton producing provinces. The central government calculates the total subsidy amount based on the provincial production and provides the funds to provincial authorities. Provincial officials must then develop their own plan for the distribution of payments in their respective provinces.

In MY15/16, based on the difference between the set target price of RMB19,100 (\$3,081)/ton and the market price (not officially published), and based on the NSB certified Xinjiang's total production at 3.5 MMT, Post estimates the total subsidy for Xinjiang was approximately RMB25.6 billion (\$4.13 billion). This is 39 percent increase from the subsidies paid to Xinjiang cotton farmers during the previous year. The MY15/16 price difference between the market price and the target price is likely higher than MY14/15 due to lower cotton market prices in MY15/16.

MY15/16 subsidies to the others nine provinces accounted roughly for RMB 3.98 billion (\$642 million), a drop of 19 percent from last year. This estimate is based on NSB certified production of 1.99 million tons (for all nine provinces) and a fixed subsidy rate of RMB2,000 (323)/ton.

Chart 9 - China Cotton Support Policy Evolution
(RMB/ton;MY11/12 to MY16/17)



Note: MY11/12 to MY13/14 is government purchase floor price; MY14/15 to MY16/17 is “target price” for Xinjiang only. Source: NDRC

The total central government combined subsidies for MY15/16 are estimated at RMB29.58 billion (\$4.8 billion).³ While total subsidies for MY15/16 grew by 26 percent compared to the total MY14/15 subsidy of RMB23.32 billion (\$3.79 billion), total subsidies in these last two years are roughly RMB6 billion (\$2 billion) lower than the subsidies provided during the state purchase policy program implemented from MY11/12 to MY13/14.

Total Central Government Cotton Subsidies under the Target Price-based System*

	MY14/15	MY15/16
Xinjiang	RMB18.4 billion (\$2.98 billion)	RMB25.6 billion (\$4.13 billion)
Other Cotton Producing Provinces	RMB 4.97 billion (\$0.81 billion)	RMB3.98 billion (\$642 million)
Total	RMB23.32 billion (3.79 billion)	RMB29.58 billion (\$4.8 billion)

*Based on NSB total estimated production and the designated target price for each year.

MY15/16 distribution of subsidy payments in Xinjiang more

³ Total Subsidy is based on a NSB total estimated production for MY15/16 of 5.6 MMT (Xinjiang 3.5 MMT and 1.99 MMT for other nine major cotton-producing provinces).

focused on production.

According to industry reports, in MY15/16, the distribution of subsidies in Xinjiang (to none-PCC farms) was more production-oriented with 90 percent of subsidy paid to farmers based on production compared to only 40 percent in MY14/15. Comparatively, for cotton farmers in the four prefectures located in southern Xinjiang, only 10 percent of the total provincial subsidy funds were used to provide an area-based subsidy. The reason behind this is reportedly to further the restructuring of Xinjiang's cotton farming towards more advantaged lands with higher yield/productivity, but also taking into account the interests of the minority groups living in the four prefectures in southern Xinjiang with relatively low yields. Industry sources estimate that in general, the MY15/16 subsidy converted to acreage rate is RMB500/Mu (\$1,210/Ha), and RMB540/Mu (\$1,306/Ha) in the four southern Xinjiang Prefectures.

MY15/16 subsidy distribution by Xinjiang PCC remained unchanged which is based on certified production. Industry sources estimated the subsidy converted into acreage rate is around RMB540/Mu (\$1,306/Ha). Industry sources indicate that the MY15/16 actual payments will reach farmers in installments with the first payment starting in December 2015 to mid-March 2016.

MY15/16 subsidy to other provinces remains unchanged

Industry sources also state that the other nine cotton-producing provinces received a direct subsidy of RMB2,000 (\$323)/ton as well but this is not officially confirmed. Based on the NSB certified production in these provinces, the central government appropriated funds to these nine provinces. Each of these provinces formulated a subsidy distribution plan of their own based on the farmers' area or production. MY15/16 payment distribution plans vary by province and details are not yet fully available for all provinces. However, the subsidy is entirely distributed based on certified acreage per household as in MY14/15 and likely in MY15/16. Based on industry sources and media reports, the actual subsidy to farmers ranges from RMB140/Mu (\$338/Ha) in Henan and Anhui; RMB150/Mu (\$363) in Shandong; RMB160/Mu (\$387/Ha) in Hubei; to RMB201/Mu (\$486) in Hebei. The actual timing that these payments reach cotton farmers also varies by province but generally these payments are received from February to April.

Given all available information and analysis, while this target price-based policy appeared to have a relatively small negative impact on MY15/16 Xinjiang cotton earnings, it dramatically reduced cotton earnings in other cotton-producing regions.

MY16/17 cotton subsidy policy continues with a lower target price

During a Cotton Policy and Market Conference held in Beijing on Mar 18, 2016, the central government announced the continuation of the “Target Price-based Subsidy Program” for Xinjiang in MY16/17. However, the target price was lowered by RMB500 (\$78)/ton from the previous year.

A senior government agricultural policy adviser indicated the subsidy program was designed to last for the three years’ trial implementation period from MY14/15 to MY16/17. The trial implementation in the first two years is rated as “successful” in terms of contribution to a market-oriented cotton price formulation mechanism, a stable cotton acreage, a reasonable income for farmers. In addition, the program is considered successful in facilitating the restructuring of the cotton industry and increasing the efficiency of the government subsidy.

NDRC then confirmed that the MY16/17 target price for Xinjiang is lowered to RMB18,600 (\$2,906)/ton from the RMB19,100 (\$3,081)/ton in the previous year. The relatively earlier announcement of the MY16/17 target price for Xinjiang compared to the previous two years (usually announced during the first week of April) is aimed at facilitating farmers’ decisions regarding crop mix. Conversely, as of this report, there is no official announcement for the fixed subsidy of RMB2000 (\$313)/ton for the other nine cotton-producing provinces. As previously reported, one principle remains unchanged and that is the fixed subsidy amount to these provinces will be equivalent to 60 percent of the subsidy rate distributed in Xinjiang in any given year, but the maximum fixed amount will not be higher than RMB2,000/ton.

Industry leaders believe the low target price for Xinjiang combined with the uncertainty of the policy for other cotton producing provinces is likely to further reduce the nation's cotton planting intentions in MY16/17, currently expected to fall by 11.6 percent based on CCA survey.

China's agricultural policy advisers also indicate that the cotton subsidy program will be adjusted based on the outcomes of the trial implementation period. Despite a fall in total subsidy, the net amount remains high compared to the total cotton value. The government also intends to use the experience with this cotton program to other major crops in the future.

The state cotton reserve rotation will be more systematic

NDRC stated that the 2016 Cotton Rotation Plan has been submitted to China's State Council and will be approved the end of March, 2016. The selling price will be based on the average of the domestic cotton price index and the global cotton price index and will be adjusted regularly. The state reserve sales will be conducted more systematically from April to August of the following year to reduce the impact on the marketing of the new domestic crop. As such, NDRC believes that in about five years, the current government reserve estimated at 11 to 11.2 MMT will be reduced to a "reasonable level." NDRC hinted that the proposed rotation auctions may not start before mid-April in consideration to the slow marketing rate of the MY15/16 Xinjiang cotton crop. Different that last year, the 2016 Rotation Plan's has a target which is reportedly to sell 2 MMT.

However, in the previous rotation auctions from July 10 to the end of August 2015, while more than 1 MMT were auctioned, only 63,400 tons were actually purchased by mills (for more details please see (GAIN Report August Oilseed Update). Industry leaders are watching closely for details on the 2016 rotation plan. The price and quality of the state reserves remain top concerns for their purchase decisions. They expect that all cotton bales will be reclassified and re-weighed. Given the limitations on additional import quotas and the anticipated "reasonable auction price," industry insiders expect the new rotation sales will have a higher purchasing rate than previous auctions.

Seed Subsidy

In MY16/17, the government will continue to provide a long-standing seed subsidy of about \$36/Ha for selected "high quality variety" seeds to improve the cotton quality in all provinces. Total expenditures in MY15/16, though

unpublished, are estimated at about \$136 million.⁴

Targeted Loans

In MY15/16, the Agriculture Development Bank of China (ADBC) continued to provide targeted loans with favorable terms for seed cotton purchases. This program facilitated the marketing of seed cotton when market prices remained weak and demand for cotton was stagnant. CCA data indicated that total loans stood at RMB28 billion (\$4.52 billion) in MY15/16 (down 40 percent over the previous year) on a smaller cotton production. ADBC will continue to provide financial assistance for the marketing of domestic cotton in MY16/17. Total ADBC loans to other provinces were only RMB300 million (\$48 million) in MY16/17 due to low production.

Registration System for Overseas Cotton Suppliers

Overseas cotton suppliers must be registered with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) to export cotton to China. On January 18, 2013, AQSIQ published Decree No.151 on "Supervision and Administration Measures for Inspection of Import Cotton." The measures took effect on February 1, 2013. The implementation of these measures on cotton trade has been limited. Based on these requirements, traders are also recommended to register with AQSIQ to export cotton to China. AQSIQ keeps updating [the newly registered or renewed overseas cotton supplier list](#) on its website with the latest update dated on March 25, 2016. Thus far, post has not received any complaints on this registration process.

National Standard on Cotton Baling (GB6975-2013)

On December 31, 2013, China's National Standardization Technical Committee on Cotton Processing published a National Standard on cotton baling (GB6975-2013) which went into effect on April 2014 (see [GAIN translation report](#)). As cotton baling practices differ among world cotton suppliers, full implementation of China's revised standards remains impractical. Thus far, U.S. cotton exports have not faced significant problems related to this standard. However, as overall Chinese imports of cotton remain under greater scrutiny, a stricter implementation of this standard is likely.

⁴ Expenditures based on NSB's estimated 3.8 MHa planted area for MY15/16.

Marketing

The marketing of domestic cotton remained slow in MY15/16 as most mills maintained a “low inventory” in response to uncertainty related to price and demand trends.

Ginners/traders, however, are more actively engaged in marketing cotton compared to the previous three years when the government remained the only buyer. On the other hand, CCA data shows MY15/16 seed cotton marketing was 94.3 percent completed as of the end of January, up by 3.6 percentage points, over the previous year.

Notwithstanding, despite a smaller production, the marketing of MY15/16 baled cotton remained slow mainly due to a weak demand and low quality in terms of length and micronaire value. As of the end of February 2016, 60 percent of MY15/16 Xinjiang cotton (none PCC) had been sold while half of the Xinjiang PCC crop remained in PCC hands. In response to this, the proposed 2016 Cotton Reserve Rotation Plan was reportedly somehow postponed.

In MY15/16, the government continued to provide a transportation subsidy of RMB500 (\$81)/ton for Xinjiang-origin cotton shipped to mills in coastal and southern cities. While Xinjiang province provides more than 60 percent of China’s domestic cotton production, there is only one rail line to move the raw product cross-country to the textile producing areas. Harvest time can create bottlenecks. The shipping congestion, however, was eased in the recent three years when the government purchased most of the Xinjiang cotton for reserves and stored it locally. Industry reports indicate that shipping by trucks increased significantly in MY15/16 mostly due to its convenience in delivery. Along with the growth of the spinning capacity in Xinjiang consuming more cotton and improved highway transportation, the shipping bottleneck is expected to ease gradually.

U.S. cotton exporters interested in exporting cotton to China in need of marketing assistance may contact USDA/FAS’s Agricultural Trade Offices (ATO) in Beijing, Chengdu, Guangzhou, Shanghai and Shenyang. They can be contacted via email at, ATOBerjing@usda.gov, ATOChengdu@usda.gov, ATOGuangzhou@usda.gov, ATOShanghai@usda.gov, and ATOShenyang@USDA.gov,

respectively. Cotton Council International (CCI) is also actively involved in promoting U.S. cotton in China and throughout Asia. CCI serves China regionally from its Hong Kong Office. CCI can be reached via email at cci-hongkong@cotton.org. Both CCI and the ATO's organize events designed to bring U.S. cotton exporters in close contact with Chinese buyers.

The China International Cotton Conference, a biannual event sponsored by CCA and MOA attracts a worldwide audience from the cotton/textile industry. The next conference will be held in 2017. CCA, in collaboration with China National Cotton Exchange also holds an annual event, the China Cotton Industry Development Forum, which focuses on analysis and outlook of the market situation. The 2016 Forum was held in May in Wuhan, Hubei Province.

*Exchange Rates: 2013-\$1=RMB6.2; 2014-\$1=RMB6.15; 2015-\$1=RMB6.2; 2016-\$1=RMB6.4

Tables

Production, Supply and Demand (PSD)

Table 1. PSD (in 1,000 Bales and 1,000 Ha)

Cotton China	2014/2015		2015/2016		2016/2017	
	Market Year Begin: Aug 2014		Market Year Begin: Aug 2015		Market Year Begin: Aug 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	4,400	4,325	3,400	3,400	0	3,100
Area Harvested	4,400	4,325	3,400	3,400	0	3,100
Beginning Stocks	62,707	62,707	67,920	67,920	0	63,555
Production	30,000	30,000	23,800	23,885	0	22,510
Imports	8,284	8,284	5,000	5,100	0	5,510
MY Imports from U.S.	0	2,696	0	1,785	0	1,900
Total Supply	100,991	100,991	96,720	96,905	0	91,575
Exports	71	71	200	250	0	300
Use	33,000	33,000	32,000	33,100	0	33,530
Loss	0	0	0	0	0	0
Total Dom. Cons.	33,000	33,000	32,000	33,100	0	33,530
Ending Stocks	67,920	67,920	64,520	63,555	0	57,745
Total Distribution	100,991	100,991	96,720	96,905	0	91,575
Stock to Use %	205	205	200	191	0	171
Yield	1,484	1,510	1,524	1,530	0	1,581
TS=TD	0	0	0	0	0	0

Table 2. PSD (in 1,000 Tons and 1,000 Ha)

	2014/2015		2015/2016		2016/2017	
	Market Year Begin: Aug 2014		Market Year Begin: Aug 2015		Market Year Begin: Aug 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cotton						
China						
Area Planted	4,400	4,325	3,400	3,400	0	3,100
Area Harvested	4,400	4,325	3,400	3,400	0	3,100
Beginning Stocks	13,653	13,653	14,788	14,788	0	13,837
Production	6,532	6,532	5,182	5,200	0	4,901
Imports	1,804	1,804	1,089	1,110	0	1,200
MY Imports from U.S.	0	587	0	389	0	414
Total Supply	21,988	21,988	21,058	21,098	0	19,938
Exports	15	15	44	54	0	65
Use	7,185	7,185	6,967	7,207	0	7,300
Loss	0	0	0	0	0	0
Total Dom. Cons.	7,185	7,185	6,967	7,207	0	7,300
Ending Stocks	14,788	14,788	14,047	13,837	0	12,572
Total Distribution	21,988	21,988	21,058	21,098	0	19,938
Stock to Use %	205	205	200	191	0	171
Yield	1,484	1,510	1,524	1,530	0	1,581
TS=TD	0	0	0	0	0	0

Trade Tables

Table 3. China's Monthly Cotton Imports

Unit: Tons					
Month	2012	2013	2014	2015	2016
January	326,468	457,490	292,485	161,230	95,588
February	616,048	378,842	246,057	159,095	
March	625,196	528,822	222,100	127,919	
April	509,694	430,878	224,365	160,761	
May	501,855	345,779	191,535	163,073	
June	475,971	269,793	218,246	161,775	
July	405,842	337,799	280,253	105,659	
August	305,556	275,885	204,493	70,019	
September	262,924	201,270	122,903	50,948	
October	272,067	141,185	81,939	42,109	
November	303,643	173,122	92,112	84,465	
December	532,187	608,606	264,459	188,157	
TOTAL	5,137,451	4,151,484	2,442,961	1,477,225	
Unit: Bales					
Month	2012	2013	2014	2015	2016
January	1,499,468	2,101,252	1,343,384	740,529	439,036
February	2,829,508	1,740,021	1,130,140	730,723	
March	2,871,525	2,428,879	1,020,105	587,532	
April	2,341,025	1,979,023	1,030,508	738,375	
May	2,305,020	1,588,163	879,720	748,994	
June	2,186,135	1,239,159	1,002,404	743,033	
July	1,864,032	1,551,511	1,287,202	485,292	
August	1,403,419	1,267,140	939,236	321,597	
September	1,207,610	924,433	564,493	234,004	
October	1,249,604	648,463	376,346	193,407	
November	1,394,632	795,149	423,070	387,948	
December	2,444,335	2,795,327	1,214,660	864,205	
TOTAL	23,596,312	19,067,766	11,220,520	6,784,894	

Source: Global Trade Atlas

Table 4. China's Cotton Imports by Country of Origin

Unit: Tons

Country	MY12/13	MY13/14	MY14/15	MY15/16*
United States	1,298,051	638,621	587,048	56,334
Australia	886,624	677,112	365,742	172,470
India	986,887	1,097,372	285,603	83,665
Uzbekistan	323,334	161,403	192,567	82,678
Brazil	322,705	91,395	187,060	78,900
Cameroon	56,266	55,217	30,406	24,065
Burkina Faso	76,891	79,905	26,993	2,826
Mexico	51,263	27,462	17,103	8,241
Cote d Ivoire	28,438	25,953	14,484	2,465
Zimbabwe	35,420	12,516	14,076	1,007
Benin	35,226	39,196	13,788	4,317
Mali	76,119	42,214	9,381	1,111
Sudan	13,619	18,850	7,831	2,551
Others	234,938	107,893	53,336	10,656
Total	4,425,781	3,075,109	1,805,418	531,286
Price \$/ton	2,047	2,117	1,840	

* First six month data of MY15/16; Source: Global Trade Atlas

Table 5. China's Monthly Cotton Exports

Unit: Tons					
Month	2012	2013	2014	2015	2016
January	0	70	440	516	200
February	472	0	408	533	
March	617	211	440	845	
April	42	990	363	150	
May	1,512	715	766	0	
June	5,919	495	296	1,544	
July	1,653	507	258	1,459	
August	1,389	348	2,676	12,047	
September	3,007	959	4,194	4,293	
October	1,168	1,409	1,633	2,826	
November	502	717	1,646	3,549	
December	1,277	313	349	1,153	
TOTAL	17,558	8,747	15,483	30,930	
Unit: 480-lb Bales					
Month	2012	2013	2014	2015	2016
January	0	322	2,021	2,370	919
February	2,168	0	1,874	2,448	
March	2,834	969	2,021	3,881	
April	193	4,547	1,667	689	
May	6,945	3,284	3,518	0	
June	27,186	2,274	1,360	7,092	
July	7,592	2,329	1,185	6,701	
August	6,380	1,598	12,291	55,332	
September	13,811	4,405	19,263	19,718	
October	5,365	6,472	7,500	12,980	
November	2,306	3,293	7,560	16,301	
December	5,865	1,438	1,603	5,296	
TOTAL	80,644	40,175	71,113	142,061	

Source: Global Trade Atlas

Table 6. China's Monthly Cotton Yarn and Thread Imports

Unit: Tons

Month	2012	2013	2014	2015	2016
January	71,713	182,030	180,997	217,843	161,490
February	123,612	102,385	153,398	124,091	
March	123,940	199,518	178,145	248,568	
April	109,098	164,099	182,080	215,583	
May	125,215	171,879	152,393	184,435	
June	108,465	145,429	140,619	193,558	
July	136,233	198,217	155,906	215,671	
August	151,741	203,448	150,303	207,673	
September	137,728	201,023	174,074	217,860	
October	126,536	182,582	172,794	174,326	
November	145,852	176,085	164,263	159,505	
December	167,593	172,894	206,439	186,270	
TOTAL	1,527,726	2,099,589	2,011,411	2,345,383	
Marketing Year	Aug/12-Jul/13	Aug/13-Jul/14	Aug/14- Jul/15	Aug/15- Jul/16	
TOTAL	1,893,007	2,079,570	2,267,622		

Source: Global Trade Atlas

Table 7. China's Monthly Cotton Yarn and Thread Exports

Unit: Tons

Month	2012	2013	2014	2015	2016
January	24,242	54,976	42,977	37,419	26,183
February	28,664	30,321	33,104	22,913	
March	49,013	51,834	42,707	29,445	
April	40,385	49,458	44,665	33,292	
May	46,048	39,013	39,518	31,396	
June	39,054	38,417	36,283	30,874	
July	27,899	43,541	35,197	31,168	
August	30,577	44,104	33,310	28,116	
September	35,850	42,582	34,685	25,847	
October	37,245	34,873	26,973	22,739	
November	37,373	43,589	26,858	20,394	
December	47,086	46,414	31,564	28,460	
TOTAL	443,436	519,122	427,841	342,063	
Marketing Year	Aug/12-Jul/13	Aug/13-Jul/14	Aug/14-Jul/15		
TOTAL	565,140	643,998	513,236		

Source: Global Trade Atlas

Table 8. China's Monthly Cotton Fabric Imports

Unit: 1,000 Square Meters

Month	2012	2013	2014	2015	2016
January	34,758	53,556	42,962	37,275	25,469
February	56,633	34,273	40,429	25,127	
March	65,647	56,104	50,594	50,279	
April	64,198	58,792	60,366	45,715	
May	68,781	65,729	46,247	37,295	
June	55,770	48,106	39,731	40,496	
July	55,550	63,187	44,237	41,323	
August	59,969	60,578	37,979	34,816	
September	60,501	54,386	41,738	36,373	
October	59,837	55,296	43,946	34,927	
November	56,748	46,965	38,112	34,010	
December	62,782	48,480	42,675	36,270	
TOTAL	701,175	645,453	529,015	453,904	
Marketing Year	Aug/12-Jul/13	Aug/13-Jul/14	Aug/14-Jul/15	Aug/15-Jul/16	
TOTAL	679,585	590,271	481,958		

Source: Global Trade Atlas

Table 9. China's Monthly Cotton Fabric Exports

Unit: 1,000 Square Meters

Month	2012	2013	2014	2015	2016
January	521,312	690,568	702,301	550,266	643,228
February	308,968	465,717	236,633	463,496	
March	678,599	646,411	544,449	349,172	
April	572,498	740,500	661,831	559,964	
May	669,145	703,833	626,164	601,174	
June	600,809	693,315	547,612	516,393	
July	491,049	688,002	545,390	559,230	
August	481,100	642,518	604,286	591,247	
September	595,636	657,223	572,285	633,045	
October	556,532	584,706	620,901	674,052	
November	593,591	690,257	631,127	580,570	
December	626,241	662,751	592,102	617,955	
TOTAL	6,697,490	7,867,815	6,885,080	6,696,564	
Marketing Year	Aug/12-Jul/13	Aug/13-Jul/14	Aug/14-Jul/15	Aug/15-Jul/16	
TOTAL	7,481,447	7,101,835	6,620,396		

Source: Global Trade Atlas

Other Tables

Table 10. Cotton Planted Area and Production by Province

Planted Area (in 1,000 Ha)				
Year	MY13/14	MY14/15	MY15/16	MY16/17
Xinjiang	2,250	2,258	1,950	1,880
Shandong	610	593	450	
Hebei	400	400	320	
Henan	450	345	220	
Hubei	220	140	100	
Anhui	200	180	100	
Jiangsu	100	88	80	
Hunan	175	130	80	
Gansu	70	40	30	
Other	225	151	70	
Total	4,700	4,325	3,400	3,100
Production (in 1,000 tons)				
Year	MY13/14	MY14/15	MY15/16	MY15/16
Xinjiang	4,450	4,250	3,600	3,530
Shandong	650	632	460	
Hebei	385	420	300	
Hubei	540	360	250	
Henan	200	133	100	
Anhui	180	178	150	
Jiangsu	95	110	100	
Hunan	192	129	100	
Gansu	108	76	45	
Other	200	212	95	
Total	7,000	6,500	5,200	4,900
Average Yield (Kg/Ha)	1,489	1,510	1,524	1,581

Note: FAS/Beijing estimate and forecast

Table 11. Cotton Tariffs as of January 1, 2016 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Cotton, not carded or combed	5201-0000					Kg
Cotton, not carded or combed, including degreased cotton -in qouta	5201-0000.01	1	125	13	13	
Cotton, not carded or combed, including degreased cotton - out of qouta, interim	5201-0000.80	40(*)	0	13	13	
Cotton, not carded or combed, including degreased cotton -out of quota	5201-0000.90	40	125	13	13	
Cotton waste, yarn waste	5202-1000	10	30	17	13	Kg
Cotton waste, garnetted stock	5202-9100	10	30	17	13	Kg
Cotton waste, other	5202-9900	10	30	17	13	Kg
Cotton, carded or combed	5203-0000		125	17	13	Kg
Cotton, carded or combed, in quota	5203-0000.01	1	125	17	13	
Cotton, carded or combed, out of quota	5203-0000.90	40	125	17	13	
Cotton sewing thread, containing 85% or more by weight of cotton	5204-1100	5	40	17	16	Kg
Other	5204-1900	5	40	17	16	Kg
Put up for retail sale	5204-2000	5	50	17	16	Kg
Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not for retail sale	5205-1100 to 5205-4800	5	40	17	16	Kg
Cotton yarn (other than sewing thread) containing less than 85% by weight of cotton, not put for retail sale	5206-1100 to 5206-4500	5	40	17	16	Kg
Cotton yarn (other than sewing thread), containing 85% or more	5207-1000	6	50	17	16	Kg
	5207-9000	6	50	17	16	Kg

Note: (*) subject to sliding tariff rate based on a formula; VAT--Value Added Tax; ED--Export Drawback Rate; Source: PRC Customs Import & Export Tariff, 2016

Table 11. Cotton Tariffs as of January 1, 2016 (continued)

Description	HS Code	M.F.N.(%)	Gen(%)	VAT	ED	Unit
Woven fabrics of cotton,	5208-	10	70	17	16	M/Kg

	1100					
containing 85% or more by weight of cotton, weighing not more than 200 g/square meter	to					
"	5208-5990*					
Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/square meter	*Except:					
"	5208-2300	12	70	17	16	M/Kg
"	5209-1100	10	70	17	16	M/Kg
	5209-1200	10	70	17	16	M/Kg
	5209-1900	10	70	17	16	M/Kg
	5209-2100	12	70	17	16	M/Kg
	5209-2200	12	70	17	16	M/Kg
	5209-2900	12	70	17	16	M/Kg
	5209-3100	10	70	17	16	M/Kg
	5209-3200	10	70	17	16	M/Kg
	5209-3900	10	70	17	16	M/Kg
	5209-4100	10	70	17	16	M/Kg
	5209-4200	10	70	17	16	M/Kg
	5209-4300	10	70	17	16	M/Kg
	5209-5900	10	70	17	16	M/Kg

Note: VAT--Value Added Tax; ED--Export Drawback Rate;

Source: PRC Customs Import & Export Tariff, 2016

Table 12. Tariff Rate Quota

Description	HS Code	Initial Quota and Tariff Rate	Final Quota and Tariff Rate	Implementation of Final Quota
Cotton		780,750 MT	894,000 MT	2004
	5201 - 0000	1%	1%	
	5203 - 0000	1%	1%	
Other terms and conditions:				
1) STE share = 33% (See Note)				
2) Staging of TRQ for cotton:				
Year TRQ quantity:				
2002 - 818,500 MT				
2003 - 856,250 MT				
2004 - 894,000 MT				
2005 - 894,000 MT (China added 1.4 MMT TRQ in 2005)				
2006 - 894,000 MT (China added 2.7 MMT TRQ in 2006, subject to variable import duty)				
2007 - 894,000 MT (China added 2.6 MMT TRQ in 2007, subject to variable import duty)				
2008 - 894,000 MT (China added 2.6 MMT TRQ in 2008, subject to variable import duty)				
2009 - 894,000 MT (China added 400,000 MT TRQ only for processing trade, due to weak demands for cotton)				
2010 - 894,000 MT (China added 2.67 MMT TRQ subject to variable import duty)				
2011 - 894,000 MT (China added 2.7 MMT of TRQ subject to variable import duty)				
2012 - 894,000 tons (China added 2.4 million tons of TRQ subject to variable import duty)				
2013 - 894,000 tons (China added an estimated 2.3 million tons additional TRQ subject to variable duty or for processing trade)				
2014 - 894,000 tons 2014 - 894,000 tons (China added about 1.3 million tons additional TRQ subject to variable duty were distributed but not officially announced)				
2015 – 894,000 tons distributed (Industry sources estimated about 300,000 tons of cotton were imported by China's bonded zones* and destined for processing-trade for re-export in 2015)				
2016 – 894,000 tons distributed (as of this report, no additional TRQ has been allocated)				

*Cotton imports by China's bonded zones are included in China's total cotton import data. However, industry sources explained that these imports are not subject to TRQ control if the processed products are proven to be exported.

Note: China's WTO commitment does NOT mandate a TRQ for CY05 and after, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, China adds TRQs based on market demand. The added TRQs are subject to a variable import duty.

Source: NDRC and industry estimates